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SUBJECT: CASABLANCA EXCHANGE MIRRORS INTERNATIONAL TRENDS,
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11. (SBU) Summary: The Casablanca Stock Exchange mirrored international market developments this week, giving up what remained of the gains it had registered earlier in the year on Monday and Tuesday, before stabilizing and rebounding on Thursday and Friday. As elsewhere, market concerns initially centered on the real estate sector, but later extended to a wide range of securities that were perceived to be overvalued. Moroccan officials moved to reassure the market on Wednesday and Thursday, stressing that capital account restrictions shelter Morocco from ongoing convulsions in international markets, and that its own economic fundamentals remain strong. Some analysts even view the correction as salutary, as it comes after five years of largely uninterrupted gains. End Summary.

12. (U) International market volatility found an echo on the Casablanca Stock Exchange this week, as the market sank sharply on Monday and Tuesday, with the two principal indexes, the MASI and the MADEX, losing 3.97 and 4.05 percent respectively on Tuesday, after dropping 3.49 and 3.63 percent on Monday. Their loss narrowed on Wednesday, and they then rebounded sharply on Thursday and Friday, with gains of 2.60 and 2.83 percent and 4.10 and 4.22 percent respectively. Overall, between September 3 and 16, the market gave up all its gains for the year, going from an overall increase of 10.9 percent to a loss of 3.1 percent. Thursday's gains moderated the loss, and the indexes returned to positive territory for the year on Friday. Analysts highlighted the fact that the losses early in the week came on slender volumes of 500 million MAD, barely above the typical daily volume of 350 million MAD. They argued that this indicated that the panic had not become widespread.

13. (U) The downward trend, initially concentrated in construction and real estate stocks, affected virtually the entire market, with 68 of 77 quoted companies losing ground. Developer Alliance Development was the hardest hit, registering a loss of nearly 24 percent, while cement companies were also sharply down, as were real estate companies CGI and Addoha, which had led the market earlier in the year. Analysts point to the fact that many of these stocks had experienced an unprecedented run-up in price, and investors believed that the time had come to realize their profits. One trader told the leading economic weekly "La Vie Eco" that it was not just foreign investors who liquidated their positions, but "local institutional and individual investors as well." Some analysts even welcomed the declines, arguing that they returned the exchange to "more reasonable levels of valuation" and in any case were not that

significant when considered in the context of the exchanges upward trajectory over the last five years.

13. (SBU) After their absence early in the week was roundly criticized in the press, government and Central Bank officials moved on Wednesday to reassure the public. Bank Al-Maghrib governor Abdellatif Jouahri stressed that Morocco remains sheltered from the international credit and market crisis, since "we have no subprimes in our banks" and "our banking sector has not taken part in the purchase of the financial instruments issued by American banks." He conceded that Morocco has witnessed its own dramatic expansion of credit to the real economy, but stressed that "we have not stood by with folded arms." Instead, he said, the bank has "put in place codes, prudential regulations, and audits that limit the risks." Jouahri added that while he had planned to undertake his annual pilgrimage to Mecca and Medina this week, he had put off the trip in order to remain on top of developments. In separate comments, Finance Minister Mezouar stressed the fundamental health of the banking sector, following improved supervision over the past decade, noting that most loans are set at fixed rates. He attributed the "brutal" declines of early in the week to "investors who took fright in discussing developments after Iftar, imagining that the world crisis would also erupt in Morocco."

14. (U) The latest Article IV staff report of the International Monetary Fund, released earlier this week, highlights the key factors that explain Morocco's continuing insulation from international market developments, including its low external debt and improved macroeconomic policies. The report notes that financial market indicators show "no

noticeable deterioration of Morocco's risk perception" relative to other emerging markets, and that gross official reserves exceed short-term external debt by an 11-1 factor, more than three times the average for the country's peers. Moreover, Moroccan financing remains primarily domestic in origin, and neither the government, corporates, or banks have significant financing (and thereby rollover risk) from external debt markets. The sole outstanding sovereign bond represents just one percent of GDP, and while external debt of the private sector is four times as high, official reserves of 32 percent of GDP comfortably exceed it. The IMF assessment is outdated only in its observation that Moroccan stock prices have not softened, but even here the IMF argues that a downturn will not significantly affect domestic demand given that shares are not widely held by the population.

15. (U) Leading market analysts here echo the official position that the crisis in confidence is unjustified. Khalid Cheddadi, President of the Interprofessional Moroccan Retirement Fund (CIMR) told the "Economist" newspaper that the slide was not based on "objective elements, since the fundamentals of most companies quoted on the exchange are precisely the opposite of what happened. He took aim in particular at widespread concerns that Morocco's real estate sector is over-extended, arguing that such doomsayers were conflating the specific segment of high-end properties in Tangier and Marrakech with the sector as a whole. That segment, he argued, "represents little in terms of the core of real estate development in Morocco," which is made up of economic and mid-level properties, where a large pool of unsatisfied demand remains to be filled. He predicted that the market "crisis" will be of short duration, since it is not based on "any economic or financial disequilibrium, but simply on a climate of uncertainty, reinforced by a difficult international climate."

16. (SBU) Comment: The market's rebound late this week has validated, in the short term at least, these positive prognostications. Mezouar went so far on Thursday, September 19, to predict that the market would end the year with overall gains on the order of ten percent. It is not possible to gainsay the argument that Moroccan markets remain largely autonomous from their international counterparts. Their ultimate fate will thus depend more on whether Jouahri's confidence in the measures the Bank Al-Maghrib has

put into place to guard against deterioration in credit
quality is justified. End Comment.

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